

DRAFT CONTRACT

This Draft Contract is for illustrative purposes only. The State may modify some or all of the terms as necessary for the sale of State Royalty Oil.

AGREEMENT FOR THE SALE AND PURCHASE
OF
STATE ROYALTY OIL

Dated as of _____, 2000

AGREEMENT FOR THE SALE AND
PURCHASE OF ROYALTY OIL

THIS AGREEMENT is entered into as of _____, 2000, by and between the State of Alaska (State) and _____ (the Buyer).

ARTICLE I

DEFINITIONS

As used in this Agreement, the terms listed below shall have the following meanings:

1.1 "Commissioner" means the Commissioner of the Alaska Department of Natural Resources or the Commissioner's designee.

1.2 "Day" means a period of twenty-four (24) consecutive hours, beginning at 12:01 a.m., Alaska Standard Time.

1.3 "Leases" means the oil and gas leases on the North Slope from which the State takes or may take Royalty Oil in-kind.

1.4 "Lessee" means a person, as "person" is defined in Alaska Statutes 01.10.060, owning a working interest in any of the Leases.

1.5 "Month" means a period beginning at 12:01 a.m., Alaska Standard Time, on the first Day of the calendar Month and ending at 12:01 a.m., Alaska Standard Time, on the first Day of the following calendar Month.

1.6 "Point of Delivery" means the transfer point where the State receives Royalty Oil in-kind from the Lessees.

1.7 “Production Month” means the Month in which the Sale Oil was delivered, or tendered for delivery, to the Buyer.

1.8 “Royalty Oil” means the total volume of crude petroleum oil and other hydrocarbons, including such substances as crude oil, condensate, natural gas liquids, or return oil from crude Oil topping plants, that may be blended with crude oil before the Point of Delivery and tendered as a common stream to the State as Royalty Oil that the State may take in-kind, regardless of whether the State is taking the Royalty Oil in-kind.

1.9 “Royalty Settlement Agreement” means any written royalty settlement agreement in effect, or which is entered in to in the future, between the State and a Lessee that affects the Royalty Value of the State’s Royalty Oil.

1.10 Sale Oil” means the Oil the State has agreed to sell to the Buyer and the Buyer has agreed to purchase under this Agreement.

1.110 TAPS” means the Trans Alaska Pipeline System.

ARTICLE II

SALE OF ROYALTY OIL

2.1 Quantity.

2.1.1 Sale Oil Quantity. The State agrees to sell to the Buyer and the Buyer agrees to purchase from the State the amount of Sale Oil identified in percentages of Royalty Oil delivered by the lessees to the State at the Point of Delivery for each Unit identified in the following nomination schedule:

Schedule: Nomination in Percentages of Royalty Oil

	Kuparuk River Unit	Duck Island Unit	Milne Point Unit
January 1, 2001 through December 31, 2001	87.00%	22.00%	95.00%
January 1, 2002 through December 31, 2002	87.00%	87.00%	95.00%
January 1, 2003 through December 31, 2003	88.00%	87.00%	95.00%

2.1.2 Waiver of Specific Quantity. The volume of Royalty Oil available to the State may vary and may be interrupted from time to time depending on a variety of factors not within the State's control, including the rate of production from the Leases. The State disclaims and the Buyer waives, any guarantee, representation, or warranty, either express or implied, that a specific quantity of the total, daily, monthly, average, or aggregate volume of Royalty Oil will be delivered as Sale Oil under this Agreement.

2.1.3 Underlifted or Stored Royalty Oil. The Buyer disclaims any interest in, or right to, stored or underlifted Royalty Oil to which the State is, or may become, entitled. If the State underlifts or stores Royalty Oil or if the State recovers underlifted or stored Royalty Oil, the quantity of Sale Oil delivered under this Agreement shall be calculated as if no Royalty Oil were underlifted, stored or recovered.

2.1.4 State's Warranty of Title. The State warrants that it has good and marketable title to the Royalty Oil delivered and sold as Sale Oil under this Agreement.

2.2 Quality.

2.2.1 Quality of Sale Oil. The Royalty Oil the State delivers to the Buyer as Sale Oil shall be of the same quality as the Royalty Oil delivered to the State at the Point of Delivery. The quality of the Royalty Oil delivered to the State, and thus, the quality of the Sale Oil the State delivers to the Buyer may vary from time to time. The State disclaims, and the Buyer waives, any guarantee, representation, or warranty, either expressed or implied, of merchantability, fitness for use, or suitability for any particular use or purpose, or otherwise, and of any specific, average, or overall quality or characteristic of Sale Oil delivered under this Agreement. The Buyer specifically waives any claim that any liquid hydrocarbons, including such substances as crude oil, condensate, natural gas liquids, or return oil from the crude oil topping plant, that may be blended with crude oil before the Point of Delivery and tendered as a common stream by the Lessees to the State as Royalty Oil, are not Sale Oil for purposes of this Agreement.

2.3 Price of the Sale Oil. The price of Sale Oil the State delivers to the Buyer each Month shall be the Royalty Value_{u,t} plus \$_____ per barrel. In this formula, Royalty Value is the price per barrel of the Sale Oil, which is derived from the "Valdez Value_{u,t}" less the "Tariff Allowance_{u,t}" plus the "Computed Quality Bank Allowance_{u,t}"; subscript "u" refers to the unit from which the Sale Oil is produced; subscript "t" is the Production Month. An explanation and illustrative example of the calculation of Royalty Value_{u,t} is shown in Exhibit A.

2.4 Delivery of Sale Oil.

2.4.1 Date of First Delivery. The State will tender first delivery of the Sale Oil to the Buyer at the Point of Delivery on January 1, 2001.

2.4.2 Subsequent Deliveries. After the first delivery, the State shall thereafter tender delivery of the Sale Oil to the Buyer at the Point of Delivery immediately upon the State's receipt of the Royalty Oil at the Point of Delivery.

2.5 Passage of Title and Risk of Loss. Title to, and risk of loss of, the Sale Oil shall pass from the State to the Buyer for all purposes when the State tenders delivery of the Sale Oil to the Buyer at the Point of Delivery. The Buyer shall bear all risk and responsibility for the Sale Oil after passage of title.

2.6 Indemnification after Passage of Title. The Buyer shall indemnify and hold the State harmless from and against any and all claims, costs, damages (including reasonably foreseeable consequential damages), expenses, or causes of action arising from or related to any transaction or event in any way related to the Sale Oil after title has passed to the Buyer.

2.7 Transportation Arrangements. The Buyer shall make all arrangements for transportation of the Sale Oil from the Point of Delivery, through and away from the TAPS, and pipelines upstream from Pump Station No. 1, and shall be responsible for any pipeline fill and storage tank bottom requirements related to transportation of the Sale Oil after passage of title. Upon the State's request, the Buyer shall provide the State with evidence or other reasonable assurance of: 1) the arrangements for transportation of the Sale Oil from the Point of Delivery,

through and away from the pipelines; 2) arrangements for resale, exchange, or other disposal of the Sale Oil; and 3) if requested, information on specific deliveries of Sale Oil by the Buyer to the pipelines and identification of tankers that will transport the Sale Oil. The Buyer's failure to provide information, evidence, or assurances requested by the State shall, at the State's election and after notice to the Buyer, constitutes a material default under this Agreement.

2.8 Absolute Obligations. The Buyer's obligations to provide security as required by Article XVI, and to purchase, transport and dispose of Sale Oil are absolute. These obligations shall not be excused or discharged by the operation of any disability of the Buyer, event of force majeure, impracticability of performance, change in conditions, or other reason or cause.

ARTICLE III

BUYER'S REPRESENTATIONS AND OBLIGATIONS

3.1 Good Standing and Due Authorization. The Buyer warrants that it is, and shall remain at all times during the term of this Agreement: 1) a corporation organized and existing under the laws of the United States or of a state, territory or the District of Columbia; 2) qualified to do business in Alaska; and 3) in good standing with the State. The Buyer warrants that it has all corporate power and authority necessary, and has performed all corporate action required, to enter into and fulfill its obligations under this Agreement.

3.2 Financial Condition. The Buyer warrants that all financial information submitted to the State: 1) is complete, accurate, and fairly represents the Buyer's financial condition at the time of submission; and 2) there has been no material change in the Buyer's

financial condition, business operations, or properties since it submitted the financial information to the State. The Buyer warrants that the financial information was prepared in accordance with generally accepted accounting principles. The Buyer shall immediately inform the State of any material change in its financial condition, business operations, agreements, or property that may affect its ability to perform its obligations under this Agreement. The Buyer shall immediately inform the State of any significant change in ownership of the Buyer, or of the Buyer's parent company or affiliates.

3.3 Financial Statements. Within one hundred and twenty Days after the end of its fiscal year, the Buyer shall, at its own cost and expense, submit to the State a complete financial report in a form or forms prescribed by the State. The report shall include the Buyer's balance sheet as of the close of the fiscal year and the income statement for that year prepared in accordance with generally accepted accounting principles. The Buyer may comply with this requirement by submitting a copy of the Buyer Petroleum Corporation's annual report filed with the United States Securities and Exchange Commission pursuant to Sec. 13 or 15(d) of the Security Exchange Act of 1934.

ARTICLE IV

MEASUREMENTS

4.1 Measurements. The quantity and quality of Sale Oil the State delivers under this Agreement shall be determined by measurement at the Point of Delivery. Procedures used for metering and measuring the Sale Oil shall be in accordance with the procedures in effect at the Point of Delivery.

ARTICLE V

INVOICING AND PAYMENT

5.1 Production Month Invoices. On or before the tenth Business Day of each Month after the first Month of delivery of Sale Oil, the State will send to the Buyer a statement of account with an invoice for the total amount due for the estimated quantity of Sale Oil delivered, or tendered, to the Buyer during the Production Month and the estimated price applicable to those deliveries. The State will base its estimates on the best information reasonably available to the State. The State shall adjust Production Month invoices as provided in Article 5.3.

5.2 Payment of Production Month Invoices. The Buyer shall pay the total amount of each Production Month Invoice, in full, on or before the third Business Day after the date of the statement of account that includes the invoice. Any amount not paid in full on or before the third Business Day after the date of the statement of account, shall accrue interest as provided in Article 5.6, and become subject to the late payment provisions of Article 5.7, and any other remedies available to the State under this Agreement and at law.

5.3 Initial Adjustments. The Buyer acknowledges that any time after a Production Month Invoice is sent, the State may receive more accurate information concerning the actual quantity and price for Sale Oil delivered to the Buyer in that Production Month. The Buyer agrees that any time such information becomes available to the State, in the next statement of account the State may make Initial Adjustments to the immediately preceding invoice, and invoice the Buyer for the Initial Adjustments, plus interest as provided in Article 5.6 on the amount of any adjustment.

5.4 Payment of Initial Adjustments. The Buyer shall pay the total amount of each Initial Adjustment Invoice, plus interest as provided in Article 5.6, in full on or before the third Business Day after the date of the statement of account that includes the Initial Adjustment Invoice. If an adjustment is due to the Buyer for an overpayment, the State shall credit or refund to the Buyer the amount of the overpayment on or before the third Business Day after the date of the statement of account that includes the Initial Adjustment Invoice. Any amount the Buyer does not pay in full on or before the third Business Day after the date of the statement of account that includes the Initial Adjustment Invoice, shall accrue interest as provided in Article 5.6, and become subject to the late payment provisions of Article 5.7, and any other remedies available to the State under this Agreement and at law.

5.6 Interest. All amounts the Buyer does not pay in full when due under this Agreement, and all amounts invoiced as adjustments for underpayments and overpayments for Sale Oil delivered to the Buyer, shall bear interest from the Date Accrued until paid in full at the rate provided by Alaska Statute 38.05.135(d), or as that statutory provision may later be amended. Appendix B illustrates accrual of interest.

5.7 Late Payment Penalty. In addition to all other remedies available to the State, if the Buyer fails to make timely payment in full of any amount due, in addition to the amount not paid when due, plus interest as provided in Article 5.6 from the Date Accrued until paid in full, the Buyer shall pay the State an amount equal to five percent of the amount not paid as a late payment penalty.

5.8 Disputed Payments. If a dispute arises concerning the amount of an invoice, the Buyer agrees to pay the full amount of the invoice when due pending final resolution of the dispute.

5.9 Manner of Payment. The Buyer shall pay all invoices in full within the times specified and without any deduction, set off, or withholding. The Buyer shall pay all invoices by wire transfer of immediately available funds to the State's account at the following address:

State Street Bank & Trust Company
Boston, Massachusetts
ABA #011000028
For credit to the State of Alaska
General Investment Fund, AY01
Account #00657189
Attn: Kim Chan, Public Funds

The Buyer may pay an invoice in such other manner or to such other address the State has specified in an invoice or by other written notice. All other payments due shall be paid in the same manner and according to the same time schedule provided in this Article. If payment falls due on a Saturday, Sunday, or legal federal holiday, payment shall be made on the next Business Day.

5.9.1 Direct Payment to Lessees. If the State directs the Buyer in an invoice or other writing to remit all or a portion of a payment required under this Agreement directly to one or more of the Lessees, the Buyer shall remit the payment to the Lessee or Lessees in the manner designated by the State, and within the time limits specified in Article V. The State may, in writing, authorize a Lessee to request direct remittance of all or a portion of a

payment due under this Agreement, and to designate the manner for payment. Unless otherwise specified by the State in writing, the balance of a direct partial payment to a Lessee, and all subsequent payments, shall be made to the State in accordance with Article V.

5.9.2 Direct Payment to Other Third Parties. Upon a determination by the State that remittance to a third party of an amount due under this Agreement will assist the State in monitoring or enforcing the Agreement, the State may direct the Buyer in an invoice or other writing to remit all or a portion of a payment due under this Agreement directly to a designated third party other than a Lessee, and the Buyer shall remit the payment to the designated third party in the manner designated by the State, and within the time limits specified in Article V. Unless otherwise specified by the State in writing, the balance of a direct partial payment to a third party, and all subsequent payments, shall be made to the State in accordance with Article V.

5.10 Definition of terms used in Article V.

5.10.1 “Business Day” means any day, or part of a day, during which banks are open for business in the place designated in this Agreement for payment.

5.10.2 “Date Accrued” means the third Business Day after the date of the statement of account that contains the production month invoice to which the initial or subsequent adjustment applies.

ARTICLE VI

TERM AND EFFECTIVE DATE

6.1 Condition Precedent to Effective Date. If this Agreement is subject to Approval under Alaska Statute 38.06.055 as a condition precedent to becoming effective, after the State and the Buyer have entered into this Agreement it shall become effective and enforceable on the date upon which is approved pursuant to Alaska Statute 38.06.055.

6.2 Term.

6.2.1 One Year Term. This Agreement has a one-year term. The State shall begin deliveries of Sale Oil under this Agreement on January 1, 2001. This Agreement shall terminate at the end of the day on December 31, 2001.

6.2.2 Reissuance with Two-year Term on Legislative Approval. Upon written agreement of the State and the Buyer, and subject to legislative approval under AS 38.06.055, after this Agreement terminates on December 31, 2001, it may be Reissued as a two-year Agreement under the same terms and conditions. If the Agreement is Reissued under this provision, the State shall begin deliveries of Sale Oil under the Reissued Agreement on January 1, 2002, and the Agreement shall terminate at the end of the day on December 31, 2003.

6.2.3 Continuing Obligations and Remedies. Termination of this Agreement shall not relieve either party from any expense, liability, or other obligation or any remedy that has accrued or attached prior to the date of termination. The provisions of Article V shall survive termination of this Agreement.

ARTICLE VII

DEFAULT OR TERMINATION

7.1 Default.

7.1.1 Events of Default. The Commissioner may, in the Commissioner's sole discretion, suspend or terminate the State's obligations to tender, deliver and sell Sale Oil to the Buyer, and may exercise any one or more of the rights and remedies provided in this Agreement, or at law, if any one or more of the following events of default occur:

- (A) Except as otherwise provided in Article VII, the Buyer fails to perform any of its obligations under this Agreement, and cannot cure the non-performance or the non-performance continues for more than thirty Days after the State has notified the Buyer of its non-performance;
- (B) Within five Days after written request from the State, the Buyer fails to provide written assurances satisfactory to the State of its intention to perform its obligations under this Agreement and evidence or assurances of transportation arrangements under Article 2.7;
- (C) The Buyer fails to pay in full any sum of money owed under this Agreement within one Business Day after the State gives the Buyer notice that payment is due and has not been paid;

- (D) There is a substantial change in the Buyer's financial condition, business operations, agreements, or property, or ownership that may affect the Buyer's ability to perform its obligations under this Agreement, and within five Days after a request by the State, the Buyer is unable or unwilling to provide the State with adequate assurance of continued performance;
- (E) Any representation or warranty made by the Buyer in this Agreement is found to have been materially false or incorrect when made; or
- (F) the Buyer fails, or is unable for any reason (including reasons beyond the Buyer's control), to maintain the security letter of credit required under Article XV, regardless of the Buyer's willingness or ability to perform any other obligations under this Agreement.

7.1.2 Default by Failure to Pay and Termination of the State's

Obligations. The Buyer shall immediately provide the State with written notice if the Buyer is unable to pay any of its debts when due or is otherwise insolvent. Upon such notice from the Buyer, or if the State independently determines that the Buyer is unable to pay any of its debts when due or is otherwise insolvent, the State's obligations to deliver and sell Sale Oil to the Buyer shall automatically and immediately terminate without any requirement of notice to the Buyer or other action by the State. Upon termination of the State's obligations under this Article, the Buyer shall be liable for payment and performance of all its obligations for Sale Oil the State

delivered to the Buyer before termination of the State's obligations, and for a minimum of one hundred Days after termination, plus an additional ninety days if a Lessee invokes the force majeure term of its Royalty Settlement Agreement. Within thirty days after termination under this Article, the State shall have the right, upon written notice to the Buyer, to reinstate all of the State's and the Buyer's obligations under this Agreement retroactive to the date of termination.

7.2 State's Remedies. If the Buyer defaults under this Agreement, in addition to all other remedies available to the State under this Agreement and or at law, the following remedies shall be available to the State in the Commissioner's sole discretion.

7.2.1 The Buyer's Obligations Become Due. All monetary obligations the Buyer has accrued under this Agreement, even if not yet due and payable, shall immediately be due and payable in full.

7.2.2 State May Dispose of Sale Oil. Until the Buyer's default is cured or this Agreement terminates, the State may dispose of the Sale Oil to third parties. If the State exercises this remedy, regardless whether this Agreement is terminated, the Buyer shall be and remain liable to the State for the amount of difference between the price for the Sale Oil under Article II and the actual price the State received from disposition of the Sale Oil to third parties.

7.2.3 Indemnification for Loss. The Buyer shall hold the State harmless and indemnify it against all liability, damages, expenses, attorney's fees and costs, and losses arising out of the Buyer's default, termination of the State's obligations, and disposal of the Sale Oil to third parties.

7.2.4 Other Rights and Remedies. The State shall have the right cumulatively to exercise all rights and remedies provided in this Agreement and by law, and obtain all other relief available under law or at equity, including mandatory injunction and specific performance.

7.3 Limitation of the Buyer's Remedies. If the State breaches or defaults any of its obligations under this Agreement, the Buyer shall not obtain a temporary restraining order or preliminary injunction preventing the State from disposing of the Sale Oil subject to this Agreement.

7.4 Termination.

7.4.1 Notice of Termination. The Buyer may terminate this Agreement by providing written notice to the State. Termination shall become effective upon the first Day of the Month following expiration of a minimum of one hundred Days after the Buyer's written Notice of Termination is delivered to the State. If, however, a Lessee invokes the force majeure provisions of its Royalty Settlement Agreement, other settlement agreement or lease, termination shall become effective upon the first Day of the Month following expiration of six Months and ten Days after the Buyer's written Notice Of Termination is delivered to the State.

7.4.2 Buyer's Acknowledgement of State's Notice Requirements. The Buyer acknowledges that if a Lessee invokes the force majeure provisions of its Royalty Settlement Agreement or lease, the State may be required to give up to six Months notice to the Lessee prior to decreasing the State's nomination of Royalty Oil to be taken in-kind in any Month. If a Lessee invokes the force majeure terms of its Royalty Settlement Agreement or lease

because the Buyer exercises its right to terminate this Agreement, the Buyer shall, for an additional ninety Days after the effective date of the Buyer's written Notice Of Termination, purchase the quantity of Sale Oil that the Buyer was obligated to purchase in that Month under the nomination schedule in Article 2.1.1.

7.4.3. Reduction of Sale Oil Deliveries. If as a result or consequence of the Buyer's Notice of Termination a Lessee invokes the force majeure terms of a Royalty Settlement Agreement or lease, the State shall reduce the quantity of Sale Oil it delivers to the Buyer only to the extent the Lessee honors the State's denomination of Royalty Oil, and the State shall not be obligated to further reduce the quantity of Sale Oil it delivers to the Buyer until the first Day of the Month following expiration of six Months and ten Days after the Buyer's written notice of termination is delivered to the State.

7.4.4 Continuing Obligations. Termination shall not relieve either party from any expense, liability, other obligation, or remedy that has accrued or attached prior to termination. The provisions of Article V shall survive termination of this Agreement.

ARTICLE VIII

DISPOSITION OF OIL

8.1 Inability to Receive Sale Oil. If the Buyer is unable or refuses to accept or receive Sale Oil tendered by the State, the Buyer shall nevertheless remain liable for disposal of and payment for the Sale Oil as though the Buyer had accepted it. The Commissioner may, in the Commissioner's sole discretion, waive this requirement.

8.2 Security for Disposal of Sale Oil. To secure the Buyer's obligations to purchase and dispose of Sale Oil, upon the Commissioner's request, the Buyer shall assign or otherwise transfer to the State, or its designee, all or part of the Buyer's right, title and interest in any arrangements for transportation of the Sale Oil through and away from the TAPS, whether such interests are under nominations, leases, contracts, charter parties, or other agreements. The State will incur liability or obligations under such assignment or transfer only to the extent the State actually exercises its rights to succeed to the Buyer's interests under and obtain the benefits of the assignments.

ARTICLE IX

NONWAIVER

9.1 Nonwaiver. The failure of either party to insist upon strict or a certain performance, or acceptance by either party of a certain performance or course of performance under this Agreement shall not: 1) constitute a waiver or estoppel of the right to require certain performance or claim breach by similar performance in the future; 2) affect the right of either party to enforce any provision; or 3) affect the validity of any part of this Agreement.

ARTICLE X

SEVERABILITY

10.1 Severability. If a court decrees any provision of this Agreement to be invalid, all other provisions of this Agreement shall remain valid. If, however, invalidation of a provision impairs a material right or remedy under this Agreement, either party may terminate this Agreement by notice to the other party as provided under Article 7.4.

ARTICLE XI

FORCE MAJEURE

11.1 Effect of Force Majeure. Except for the Buyer's absolute obligations to provide security, purchase, transport and dispose of Sale Oil, neither party shall be liable for failure to perform if performance is substantially prevented by force majeure after good faith efforts to perform. If, however, the Buyer is prevented by force majeure from performing any material obligation for sixty successive days or more, the State, in the Commissioner's sole discretion, shall have the right to terminate this Agreement. Before the State exercises this right, the Commissioner may require the Buyer to negotiate in good faith to restore performance. In this Agreement the term "force majeure" means an event or condition not within the reasonable control of the party claiming the benefit of the excuse.

11.2 Notice of Force Majeure. If a party believes that force majeure has occurred, the party shall immediately notify the other party of its claim of force majeure. The party claiming force majeure shall use reasonable diligence to remedy the force majeure. Except for the Buyer's absolute obligations to provide security, and purchase, transport and dispose of Sale Oil, the disabled party's obligations to perform that are affected by the force majeure shall be suspended from the time of notification to the other party until the disability caused by the force majeure should have been remedied with reasonable diligence.

ARTICLE XII

NOTICES

12.1 Method. Unless otherwise specifically provided in this Agreement, all notices, requests, demands or statements shall be in writing and delivered to the address specified in this Article in person, by telecopier or other form of facsimile, by United States mail, postage prepaid, registered or certified with a return receipt requested, to the party to be notified. A statement of account the State delivers to the Buyer by telecopy shall be deemed delivered to the Buyer when the State's telecopier confirms that it was received at the Buyer's telecopy number during normal business hours. A notice, request, demand or statement delivered by United States mail shall be deemed delivered on the earlier of expiration of seven Days after it is deposited in the mail, or upon the date of receipt by the party to whom it is directed. A notice, request, demand or statement delivered in any other manner shall be effective only if and when received by the party to whom it is directed. The address of the parties shall be as follows.

State:

State of Alaska
Commissioner of Natural Resources
400 Willoughby Avenue
Juneau, Alaska 99801

and

Director, Division of Oil and Gas
550 West 7th Street, Suite 800
Anchorage, Alaska 99510-3510
Telecopy Number: (907) 269-8938

Buyer:

Telecopy Number: _____

12.2 Change of Address. Each party may notify the other of changes to its address by delivering written notice of the change.

ARTICLE XIII

RULES AND REGULATIONS

13.1 Rules and Regulations. This Agreement is subject to all applicable laws of the State of Alaska, and orders, rules and regulations of the United States, the State of Alaska, and any duly constituted agency of the State of Alaska.

ARTICLE XIV

SOVEREIGN POWER OF THE STATE

14.1 Sovereign Power of the State. This Agreement shall not be interpreted to limit in any way the State's ability to exercise any sovereign or regulatory powers, whether conferred by constitution, statute or regulation. The State's exercise of any sovereign or regulatory power shall not be deemed to enlarge any of the Buyer's rights, or limit any of the Buyer's obligations or liabilities under this Agreement.

ARTICLE XV

SECURITY

15.1 Letter of Credit. *[Note: The Buyer will be required to provide Security in a form acceptable to the Commissioner seventy five Days before the Date of First Delivery. The*

amount of Security required will be an amount estimated by the Commissioner to be equal to the value of the Sale Oil to be delivered to the Buyer during the seventy five days immediately following the Date of First Delivery. The Buyer will be required to provide Security in one, more, or a combination of the following forms: an irrevocable stand-by letter of credit giving the State the right to draw and present drafts to the Issuer for up to seventy-five Days after the State's last delivery, or tender of delivery, of Sale Oil; guarantees of the ability to transport and dispose of up to seventy five Days of Sale Oil deliveries at all time during the Term of this Agreement; some combination of the forms of Security listed above, or other form of Security determined by the Commissioner to be adequate to secure the State for seventy five Days deliveries of Sale Oil.]

15.2 Other Security. The Commissioner may, in the Commissioner's sole discretion, require such other or additional security from the Buyer as the Commissioner considers necessary and adequate to protect the State's interest.

ARTICLE XVI

APPLICABLE LAW

16.1 Governing Law. This Agreement, and all matters arising from or related to this Agreement, shall be governed, construed and determined by the laws of the State of Alaska.

16.2 Jurisdiction. Any legal action or proceeding arising out of or related to this Agreement shall be brought in a state court of general jurisdiction sitting in the State of

Alaska, and the Buyer hereby irrevocably submits to the jurisdiction of that court in any such action or proceeding.

16.3 Venue. The parties agree that the venue for any legal action or proceeding arising out of or related to this Agreement shall be in the Alaska Superior Court sitting in Anchorage, Alaska.

ARTICLE XVII

WARRANTIES

17.1 Warranties. The purchase and sale of Royalty Oil under this Agreement are subject only to the warranties the State has expressly set forth in this Agreement. The State disclaims and the Buyer waives all other warranties, express or implied in law.

ARTICLE XVIII

AMENDMENT

18.1 Amendment. This Agreement may be supplemented, amended, or modified only by written instrument duly executed by the parties.

ARTICLE XIX

SUCCESSORS AND ASSIGNS

19.1 Successors and Assigns. No assignment, pledge, or encumbrance of this Agreement, or portion of this Agreement, shall be made by either party without first obtaining the written consent of the other party to this Agreement. An assignment is void and without effect unless the other party to this Agreement has consented in writing to the assignment. Neither the State nor the Buyer shall unreasonably withhold consent to an assignment. The Commissioner

may consent on behalf of the State. Subject to the requirement of written consent, this Agreement shall be binding upon and inure to the benefit of each of the parties and their successors and permitted assignees.

ARTICLE XX

INTERPRETATION OF TERMS AND CONDITIONS

20.1 Interpretation of Terms and Conditions. Any disagreement or dispute about the meaning or application of a word, term, or condition in this Agreement shall be decided according to the dispute resolution procedure set forth in this Article. Either party may initiate the procedure set forth in this Article by providing written notice of the disagreement or dispute to the other party. No later than 60 Days after either party provides written notice, the Buyer and the State shall each present any arguments and evidence supporting its view of the disputed term or condition in writing to the Commissioner for consideration. The Buyer shall not have the right to civil litigation-type discovery or a civil litigation-type trial with the right to call or cross-examine witnesses unless granted by the Commissioner, after request. Within thirty Days after both parties submit their arguments and evidence, the Commissioner shall issue a finding interpreting the meaning or application of the disputed word, term, or condition, and shall set forth the basis for the conclusions. The Buyer agrees to accept findings of the Commissioner under this Article that are reasonable and not arbitrary.

ARTICLE XXI

COUNTERPARTS

21.1 Counterparts. This Agreement may be executed in multiple counterparts.

It is not necessary for the parties to sign the same counterpart. Each duly executed counterpart shall be deemed to be an original and all executed counterparts taken together shall be considered to be one and the same instrument.

SIGNATURES

the State:

THE STATE OF ALASKA

Commissioner

Department of Natural Resources

Date: _____

XXXXXXXXXXXXXXXXXXXX

CORPORATION.

By: _____

Its: _____

Date: _____

XXXXXXXXXXXXXXXXXXXX

XXXXXXXXXXXXXXXXXXXX

By: _____

Its: _____

Date: _____

ACKNOWLEDGMENT

State of Alaska)
) ss.
Third Judicial District)

THIS IS TO CERTIFY that on the _____ day of _____, 2000, before me, appeared _____, the commissioner, Department of Natural Resources, State of Alaska; and executed this document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this agreement first above written.

Notary Public in and for Alaska

My commission expires:_____

ACKNOWLEDGMENT

THIS IS TO CERTIFY that on the _____ day of _____, 2000, before me, appeared _____ of _____, and executed this document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this agreement first above written.

Notary Public in and for _____

My commission expires:_____

ACKNOWLEDGMENT

THIS IS TO CERTIFY that on the _____ day of _____, 2000, before me, appeared _____ of _____; that _____ executed that document under legal authority and with knowledge of its contents; and that this act was performed freely and voluntarily upon the premises and for the purposes stated in the document.

Witness my hand and official seal the day and year in this agreement first above written.

Notary Public in and for _____

My commission expires:_____

Appendix A

Explanation and Illustrative Example of Royalty Value

1. Explanation of calculations contained in Article 2.3 Price of Sale Oil.

A. Price of the Sale Oil. The price of Sale Oil the State delivers to the Buyer each Month shall be the Royalty Value_{u,t} plus \$_____ per barrel. In this formula, Royalty Value is the price per barrel of the Sale Oil, which is derived from the “Valdez Value_{u,t}” less the “Tariff Allowance_{u,t}” plus the “Computed Quality Bank Allowance_{u,t}”; subscript “u” refers to the unit from which the Sale Oil is produced (Duck Island Unit, Kuparuk River Unit, or Milne Point Unit); subscript “t” is the Production Month.

B. Valdez Value. Valdez Value_{u,t} is calculated as WTI_t less the 12-Month RIV Spread_u. In this formula, WTI_t is the spot price for prompt month deliveries of West Texas Intermediate crude oil at Cushing, Oklahoma reported during the Production Month in Platt’s Oilgram News. The State will compute the daily average WTI from the high and low WTI price reported by Platt’s for each trading day in the Production Month. The Monthly average of these daily averages equals WTI_t.

The State will derive the 12-Month RIV Spread from the royalty reports provided to the State from the Lessees in the Duck Island Unit, Kuparuk River Unit, and the Milne Point Unit. RIV is the per barrel value the State would have received from the Lessees for its Royalty Oil if the State had taken its Royalty Oil in-value rather than in-kind, plus any costs incurred by the State as a result of taking the Royalty Oil in-kind rather than in-value. To calculate the 12-Month RIV Spread, the State first will calculate a monthly RIV Valdez Value, weighted by the Lessees’ ownership percentage in each unit. The RIV Valdez Value for each Lessee equals the

Lessee's Destination Value, adjusted by the Lessee's Destination Value Ratio, and minus the any allowance for marine transportation costs as defined in the Lessee's Royalty Settlement Agreement.

Each March during the term of the contract, the State will calculate the monthly difference between WTI and RIV Valdez Value for each unit for each month between the previous January and December. The State will select the difference between WTI and RIV Valdez Value for each unit such that it less than or is equal to the difference between WTI and RIV Valdez Value for each unit for nine of the twelve months between the previous January and December. This selection becomes the 12-Month RIV Spread_u that the State will use to calculate the Valdez Value_{u,t} for the following April to September Production Months.

Every September during the term of the contract, the State will calculate the monthly difference between WTI and RIV Valdez Value for each unit for each month between the previous July and June. The State will select the difference between WTI and RIV Valdez Value for each unit such that it less than or is equal to the difference between WTI and RIV Valdez Value for each unit for nine of the twelve months between the previous July and June. This selection becomes the 12-Month RIV Spread_u that the State will use to calculate the Valdez Value_{u,t} for the following October to March Production Months.

C. Tariff Allowance. The State will calculate the per-barrel Tariff Allowance_{u,t} as the simple average of the three lowest TAPS tariffs filed with the Federal Energy Regulatory Commission for shipments of oil from Pump Station No. 1 to the terminal at Valdez, Alaska in effect during the Production Month plus any tariff for pipelines upstream of Pump Station No. 1 between the Point of Delivery and Pump Station No. 1. The three lowest TAPS tariffs used to

calculate the Tariff Allowance_{u,t} will include all incentive tariffs that may be offered by the pipeline carriers. The Tariff Allowance_{u,t} is subject to retroactive adjustments at any time after delivery of the Sale Oil if any tariff filed by the carriers changes retroactively as a result of litigation, legal or administrative decision, or other resolution of a tariff dispute.

D. Computed Quality Bank Adjustment. The State will calculate the per-barrel Computed Quality Bank Allowance_{u,t} from data that appears in the monthly “TAPS Quality Bank Stream Value and Total Stream Volume Shipped” table supplied by the TAPS Quality Bank Administrator to the TAPS carriers and the State. The State will calculate the difference between the per-barrel Stream Value for each unit from the per-barrel Stream Value for the PVSR Reference for each of the three months preceding the Production Month. The Computed Quality Bank Adjustment_{u,t} is the simple average of the three monthly differences. The Computed Quality Bank Adjustment_{u,t} is subject to retroactive adjustments at any time after delivery of the Sale Oil if the Quality Bank changes retroactively as a result of litigation, legal or administrative decision, or other resolution of a tariff dispute.

2. Sample Calculation of Royalty Value

A. Royalty Value. The State will calculate for every Production Month (t) the Royalty Value for Sale Oil produced in each unit (u) according to the following equation:

$$\text{Royalty Value}_{u,t} = \text{Valdez Value}_{u,t} - \text{Tariff Allowance}_{u,t} + \text{Computed Quality Bank Allowance}_{u,t}$$

B. Valdez Value. Valdez Value is a per barrel value defined by the following equation:

$$\text{Valdez Value}_{u,t} = \text{WTI}_t - 12\text{-Month RIV Spread}_u$$

The State will compute the daily average WTI_t from the high and low WTI price

reported by Platt's for each trading day in the Production Month and from these averages calculate the WTI average price for the Month. The calculation of WTI_t for June 2000 is illustrated in Table A.

The State will calculate the 12-Month RIV Spread_u from data provided from the royalty reports provided by the Lessees. Each lessee calculates a Royalty Value by using a formula specified in the lessee's Royalty Settlement Agreement. Using these formulas the State can calculate the value of Royalty Oil at Valdez for each lessee by subtracting from the product of the royalty formula's Destination Value times the Destination Value Ratio a deduction for the lessee's marine transportation costs. This is RIV Valdez Value_{u,Lessee}. The average of the RIV Valdez Value for each Lessee in each unit, weighted by the Lessee's ownership percentage in each unit equals the RIV Valdez Value_u.

$$\begin{aligned} \text{RIV Valdez Value}_u = & (\text{Valdez Value}_{u,\text{Lessee } 1} \times \text{Unit Ownership Percent}_{u,\text{Lessee } 1}) + \\ & (\text{Valdez Value}_{u,\text{Lessee } 2} \times \text{Unit Ownership Percent}_{u,\text{Lessee } 2}) + \dots + (\text{Valdez Value}_{u,\text{Lessee } n} \\ & \times \text{Unit Ownership Percent}_{u,\text{Lessee } n}) \end{aligned}$$

The actual monthly RIV Spread_u is the difference between the WTI price for the month minus the monthly RIV Valdez Value for the unit.

$$\text{RIV Spread}_u = \text{WTI} - \text{RIV Valdez Value}_u$$

The RIV Valdez Value_{u,Lessee} of some lessees must be kept confidential by the State as stipulated in the lessees' royalty settlement agreements. For this reason, the State will share only the 12-Month RIV Spread_u with the Buyer.

Every March during the term of the contract the State will calculate the RIV Spread_u. The State will select the monthly RIV Spread_u that is less than or equal to the RIV

Spread_u for nine of the twelve months during the period between the previous January to December. This is the 12-Month RIV Spread_u that the State will use to calculate the Valdez Value_{u,t} for the following April to September Production Months.

Every September during the term of the contract the State will calculate the monthly RIV Spread_u and select the monthly RIV Spread_u that is less than or equal to the RIV Spread_u for nine of the twelve months during the period between the previous July to June. This is the 12-Month RIV Spread_u that the State will use to calculate the Valdez Value_{u,t} for the following October to March Production Months.

A hypothetical calculation of the 12-Month RIV Spread and the Valdez Value for the Duck Island Unit for June 2000 is illustrated in Table B.

12-Month RIV Spread_{Duck Island Unit, June 2000} = \$3.14 per barrel

Valdez Value_{Duck Island Unit, June 2000} = WTI_{June 2000} - 12-Month RIV Spread_{Duck Island Unit, June 2000}

Valdez Value_{Duck Island Unit, June 2000} = \$31.88 - \$3.14 = \$28.74 per barrel

C. Tariff Allowance_{u,t}. The Tariff Allowance_{u,t} is a per-barrel value and is calculated from the simple average of the three lowest TAPS tariffs filed with the Federal Energy Regulatory Commission (FERC) for shipments of oil from Pump Station No.1 to the terminal at Valdez, Alaska. The three lowest tariffs used in the TA will include any incentive tariffs that may be offered by the pipeline carriers. The tariffs for pipelines upstream of Pump Station No.1 are added to the simple average of the three lowest TAPS tariffs to calculate the Sale Oil price at the DIU, KRU, and MPU.

Table C illustrates how the state will calculate the Tariff Allowance_{u,t} for each of the four units from which sale oil will be offered. If the calculation of the Tariff Allowance_{u,t} is

for the Production Month of June 200 and the Duck Island Unit,

Tariff Allowance_{Duck Island Unit, June 2000} = \$2.96 per barrel.

The Tariff Allowance_{u,t} is subject to retroactive adjustments at anytime after delivery of the sale oil if the tariffs charged to the shipper by the carriers should change as the result of litigation or dispute.

D. Computed Quality Bank Adjustment_{u,t}. The Computed Quality Bank Adjustment_{u,t} is a per-barrel value, either positive or negative, and will be calculated each month by the state for sale oil from each unit. In its calculation of Computed Quality Bank Adjustment_{u,t} the State will preserve the confidentiality of the Quality Bank source data by taking an average of the actual Quality Bank Adjustments over the three months previous to the Production Month.

Tables D and E illustrate how the state will calculate the quality bank differential for sale oil produced from each unit. In Table D, the amounts in the column titled “Stream Value (\$/BBL)” are the different per-barrel values of each stream produced from the units from which sale oil will be delivered. The “PSVR Reference Stream Value” is the stream value of the oil downstream of the Petro Star Valdez refinery.

Assume that the production month is June 2000 and the Sale Oil is produced from the Duck Island Unit. The State sends an invoice to the buyer on July 4, 2000. By this date, the State will have received the “Stream Values and Total Stream Volume Shipped” table as illustrated in Table D for May 2000. The state will calculate the per-barrel difference between the Stream Value for each unit where the buyer is taking sale oil and the PSVR Reference Stream Value. This is identified as $QBA_{DIU @ Valdez}$ in Table D and equals -\$0.2823475765 per barrel.

The State will also calculate the $QBA_{DIU @ Valdez}$ for March and April 2000. Table E shows the calculation of the Computed Quality Bank Adjustment_{u,t}. The Computed Quality Bank Adjustment_{u,t} for the Duck Island Unit for June 2000 is -\$0.27 per barrel.

The Computed Quality Bank Adjustment_{u,t} is subject to retroactive adjustments at anytime after delivery of the Sale Oil if the Quality Bank changes retroactively as the result of litigation or dispute.

2. Rounding.

The numbers calculated for WTI_u , $RIV Spread_u$, $Tariff Allowance_{u,t}$ and Computed Quality Bank Adjustment_{u,t} shall be rounded to two decimals prior to further calculation. If a number's third decimal is 0, 1, 2, 3, or 4, the number shall be truncated to the second decimal. If a number's third decimal is 5, 6, 7, 8, or 9, the number shall be truncated to the second decimal and the second decimal shall be increased by 1.

3. In summary, the hypothetical Royalty Value_{u,t} for the Duck Island Unit for the Production Month of June 2000 is equal to:

$$\text{Royalty Value}_{\text{Duck Island Unit, June 2000}} = \$28.90 - \$2.96 + -\$0.27 = \$25.67 \text{ per barrel}$$

Table A: Calculation of the Average Spot Price of West Texas Intermediate Crude Oil for Prompt Month Deliveries At Cushing, Oklahoma

Production Month: June 2000

Effective Date	WTI Daily Low	WTI Daily High	WTI Daily Average
06/01/00	\$30.25	\$30.26	\$30.2550
06/02/00	\$30.39	\$30.40	\$30.3950
06/05/00	\$29.64	\$29.66	\$29.6500
06/06/00	\$29.87	\$29.89	\$29.8800
06/07/00	\$30.01	\$30.03	\$30.0200
06/08/00	\$29.80	\$29.82	\$29.8100
06/09/00	\$30.25	\$30.27	\$30.2600
06/12/00	\$31.81	\$31.83	\$31.8200
06/13/00	\$32.50	\$32.52	\$32.5100
06/14/00	\$32.79	\$32.81	\$32.8000
06/15/00	\$32.90	\$32.92	\$32.9100
06/16/00	\$32.27	\$32.29	\$32.2800
06/19/00	\$31.70	\$31.72	\$31.7100
06/20/00	\$33.04	\$33.06	\$33.0500
06/21/00	\$33.80	\$33.82	\$33.8100
06/22/00	\$34.72	\$34.74	\$34.7300
06/23/00	\$34.74	\$34.76	\$34.7500
06/26/00	\$31.58	\$31.60	\$31.5900
06/27/00	\$32.10	\$32.12	\$32.1100
06/28/00	\$31.83	\$31.84	\$31.8350
06/29/00	\$32.69	\$32.71	\$32.7000
06/30/00	\$32.44	\$32.46	\$32.4500

WTI_{June 2000} = \$31.8784

WTI_{June 2000} = \$31.88 ¹

¹Value for WTI_t is rounded before it is included in subsequent calculations.

Source: "Platt's Oilgram Price Report" June 2, 2000 through July 5, 2000. Published by Standard and Poor's McGraw-Hill Companies.

Table B: Hypothetical Calculation of the 12-Month RIV Spread_{u,t} and Valdez Value_{u,t}

Production Month: June 2000

Unit: Duck Island Unit

	WTI	Hypothetical RIV Valdez Value _{Duck Island Unit}	RIV Spread _{Duck Island Unit}	RIV Spread _{Duck Island Unit} Sorted From Lowest to Highest
Apr-98	\$15.31	\$12.20	\$3.11	
May-98	\$14.93	\$11.98	\$2.95	
Jun-98	\$13.69	\$10.50	\$3.19	
Jul-98	\$14.12	\$11.28	\$2.84	
Aug-98	\$13.39	\$10.49	\$2.90	
Sep-98	\$14.98	\$12.00	\$2.98	
Oct-98	\$14.42	\$11.50	\$2.92	
Nov-98	\$12.95	\$9.91	\$3.04	
Dec-98	\$11.29	\$8.25	\$3.04	
Jan-99	\$12.48	\$9.50	\$2.98	\$2.59
Feb-99	\$12.00	\$9.00	\$3.00	\$2.96
Mar-99	\$14.66	\$11.70	\$2.96	\$2.97
Apr-99	\$17.34	\$14.75	\$2.59	\$2.98
May-99	\$17.74	\$14.57	\$3.17	\$3.00
Jun-99	\$17.90	\$14.77	\$3.13	\$3.13
Jul-99	\$20.08	\$17.11	\$2.97	\$3.17
Aug-99	\$21.27	\$18.00	\$3.27	\$3.23
Sep-99	\$23.88	\$20.45	\$3.43	\$3.27
Oct-99	\$22.67	\$19.25	\$3.42	\$3.34
Nov-99	\$24.89	\$21.55	\$3.34	\$3.42
Dec-99	\$26.03	\$22.80	\$3.23	\$3.43
Jan-00	\$27.24	\$24.10	\$3.14	
Feb-00	\$29.41	\$26.00	\$3.41	
Mar-00	\$29.85	\$26.50	\$3.35	

Less than or equal to
nine of the twelve
RIV Spread_u values
in Jan-99 to Dec-99.

12-Month RIV Spread_{Duck Island Unit, June 2000} = \$3.14 per barrel

Valdez Value_{Duck Island Unit, June 2000} = WTI_{June 2000} - 12-Month RIV Spread_{Duck Island Unit, June 2000}

Valdez Value_{Duck Island Unit, June 2000} = \$31.88 - \$2.98 = \$28.90 per barrel

Table C: Hypothetical Tariff Allowance_{u,t}
Production Month: June 2000

Trans-Alaska Pipeline System (TAPS) Owner	FERC Approved Tariff Pump Station No. 1 to Valdez
Amerada Hess Pipeline	\$2.47 *
ARCO Pipeline	\$2.48 *
Exxon Pipeline	\$2.70
Mobil Pipeline	\$2.63
Phillips Pipeline	\$2.46 *
BP	\$2.80
Union Pipeline	\$2.50
Simple Average of the *Lowest Three Tariffs =	<u>\$2.47000</u> ¹
Calculation of TA for Duck Island Unit 2/	
Simple Average of the *Lowest Three Tariffs =	\$2.47000
Endicott Pipeline Co. Tariff	<u>\$0.49000</u>
TA _{DIU}	\$2.96000
TA _{DIU}	\$2.96 ¹
Calculation of TA for Kuparuk River Unit	
Simple Average of the *Lowest Three Tariffs =	\$2.47000
Kuparuk Pipeline Co. Tariff	<u>\$0.21000</u>
TA _{KRU}	\$2.68000
TA _{KRU}	\$2.68 ¹
Calculation of TA for Milne Point Unit 2/	
Simple Average of the *Lowest Three Tariffs =	\$2.47000
Kuparuk Transportation Co. Tariff	\$0.15000 ²
Milne Point Pipeline Co. Tariff	<u>\$0.53000</u>
TA _{MPU}	\$3.15000
TA _{MPU}	\$3.15 ¹

¹Values for each TA_u is rounded before it is included in subsequent calculations.

²Kuparuk Pipeline/Milne Point Pipeline connection to TAPS Pump Station No. 1.

Table D: Hypothetical “Stream Values and Total Stream Volume Shipped” Tables

TAPS Quality Bank Stream Values and Total Stream Volume Shipped May 2000				
Sample Location	Stream	Volume (BBL)	Stream Value (\$/BBL)	Total Stream Value (\$)
PBU IPA	PBU IPA	19,000,000	\$27.9380000000	\$530,822,000.00
LISBURNE	LISBURNE	3,500,000	\$27.5372400000	\$96,380,340.00
ENDICOTT	ENDICOTT	1,250,000	\$27.2598000000	\$34,074,750.00
KUPARUK	KUPARUK	9,000,000	\$27.3224400000	\$245,901,960.00
PS #1	PS #1 REFERENCE	32,750,000	\$27.7001236641	\$907,179,050.00
GVEA OFFTAKE	GVEA PASSING	27,000,000	\$27.6546500000	\$746,675,550.00
GVEA RETURN	GVEA RETURN	3,500,000	\$26.6753800000	\$93,363,830.00
GVEA	GVEA REFERENCE	30,500,000	\$27.5422747541	\$840,039,380.00
PSVR OFFTAKE	PSVR PASSING	30,000,000	\$27.5517600000	\$826,552,800.00
PSVR RETURN	PSVR RETURN	1,000,000	\$26.8450200000	\$26,845,020.00
PSVR	PSVR REFERENCE	31,000,000	\$27.5289619355	\$853,397,820.00

EPC Quality Bank Stream Values and Total Stream Volume Shipped May 2000				
Sample Location	Stream	Volume (BBL)	Stream Value (\$/BBL)	Total Stream Value (\$)
BADAMI	BADAMI	80,000	\$27.4526400000	\$2,196,211.20
ENDICOTT REFERENCE	ENDICOTT REFERENCE	1,250,000	\$27.2598000000	\$34,074,750.00
ENDICOTT MAIN PROD	ENDICOTT MAIN PROD ¹	1,170,000	\$27.2466143590	\$31,878,538.80

KTC Quality Bank Stream Values and Total Stream Volume Shipped May 2000				
Sample Location	Stream	Volume (BBL)	Stream Value (\$/BBL)	Total Stream Value (\$)
MILNE POINT	MILNE POINT	1,500,000	\$27.1352300000	\$40,702,845.00
KUPARUK REFERENCE	KUPARUK REFERENCE	9,000,000	\$27.3224400000	\$245,901,960.00
KUPARUK RIVER UNIT	KUPARUK RIVER UNIT ¹	7,500,000	\$27.3598820000	\$205,199,115.00

Table E: Hypothetical Quality Bank Adjustment
Calculation of Quality Bank Adjustment for Sale Oil
Production Month: June 2000

Quality Bank Adjustment for the Duck Island Unit = the Stream Value for Endicott Main Production minus the Stream Value of PSVR Reference

$$QBA_{DIU} @ \text{Valdez} = 27.246614359 - 27.5289619355$$

$$QBA_{DIU} @ \text{Valdez} = -\$0.2823475765$$

Quality Bank Adjustment for the Kuparuk River Unit = the Stream Value for Kuparuk River Unit minus the Stream Value of PSVR Reference

$$QBA_{KRU} @ \text{Valdez} = 27.359882 - 27.5289619355$$

$$QBA_{KRU} @ \text{Valdez} = -\$0.1690799355$$

Quality Bank Adjustment for the Milne Point Unit = the Stream Value for Milne Point minus the Stream Value of the PSVR Reference

$$QBA_{MPU} @ \text{Valdez} = 27.1352300000 - 27.5289619355$$

$$QBA_{MPU} @ \text{Valdez} = -\$0.3937319355$$

Quality Bank Adjustment for the PBU IPA = the Stream Value for PBU IPA minus the Stream Value of the PSVR Reference

$$QBA_{PBU \text{ IPA}} @ \text{Valdez} = \$27.938 - \$27.5289619355$$

$$QBA_{PBU \text{ IPA}} @ \text{Valdez} = \$0.4090380645$$

Quality Bank Adjustment for PBU GPMA = the Stream Value for Lisburne minus the Stream Value of the PSVR Reference

$$QBA_{PBU \text{ GPMA}} @ \text{Valdez} = 27.5372400000 - 27.5289619355$$

$$QBA_{PBU \text{ GPMA}} @ \text{Valdez} = \$0.0082780645$$

If the $QBA_{DIU} @ \text{Valdez}$ for March equals $-\$0.3189654310$ and the $QBA_{DIU} @ \text{Valdez}$ for April is $-\$0.2225555223$, then

Computed Quality Bank Adjustment_{u,t}

$$= (QBA_{DIU} @ \text{Valdez, March} + QBA_{DIU} @ \text{Valdez, April} + QBA_{DIU} @ \text{Valdez, May})/3$$

$$= (-\$0.3189654310 + -\$0.2225555223 + -\$0.2823475765)/3$$

$$= (-\$0.8238685298)/3$$

$$= -\$0.2746228433$$

$$= -\$0.27^1$$

¹Values for each Computed Quality Bank Adjustment_{u,t} are rounded before it is included in subsequent calculations.

Appendix B Invoicing and Payment

Sample Calculation of the Production Month Invoice

Assumptions:

1. Month is July 2000.
2. Sale Oil delivered to the Buyer from the Duck Island Unit in June 2000 = 145,000 barrels.
3. June 2000 Production Month Royalty Value for Duck Island Unit as calculated in Appendix A above = \$25.67 per barrel. Buyer's bid premium \$0.17 per barrel.
4. Statement of account, with June 2000's Production Month invoice, sent to the Buyer on July 3, 2000.
5. Date June 2000 Production Month invoice payment due to the State = July 7, 2000 (statement of account date plus three business days).

Method for calculating Buyer's Production Month invoice payment for June 2000 deliveries:

$$\begin{aligned}\text{Price of Sale Oil} &= \text{Royalty Value} + \$0.17 \\ &= \$25.67 + \$0.17 = \$25.84\end{aligned}$$

$$\begin{aligned}\text{Production Month Invoice Amount} &= \text{Quantity of Sale Oil} \times \text{Buyer's Price of Sale Oil} \\ &= 145,000 \times \$25.84 = \$3,746,800.00\end{aligned}$$

If payment in full is not received by the State on or before July 7, 2000, interest will accrue on the unpaid balance from July 7, 2000 through the date the payment is received, and a Late Payment Penalty will be assessed.

Note: As more accurate data is received by the State, the State may adjust the invoice price and/or the actual quantity of Sale Oil and invoice the Buyer in the Initial Adjustment invoice submitted with the following month's (August) statement of account.

Sample Calculation of the Initial Adjustment Invoice

Assumptions:

1. Month is August.
2. Sale Oil delivered in June 2000 has been revised to 140,000 barrels.
3. June 2000's price for Sale Oil is unchanged at \$25.84 per barrel.
4. Annual interest rate provided by Alaska Statute 38.05.135(d) for July – August is 11 percent.
5. Date of the statement of account that contains the Initial Adjustment invoice is August 1, 2000.
6. Date the Initial Adjustment invoice payment is due to the State = August 4, 2000.

Method for calculating the Buyer's Initial Adjustment invoice amount for June 2000 Production Month:

$$\begin{aligned}\text{Production Month Invoice Amount} &= \text{Quantity of Sale Oil} \times \text{Buyer's Price of Sale Oil} \\ &= 140,000 \times \$25.84 = \$3,617,600.00\end{aligned}$$

$$\begin{aligned}\text{Amount previously paid by the Buyer for June 2000 Production Month} &= \underline{\$3,746,800.00} \\ \text{Overpayment for June 2000 Production Month} &= (\$129,200.00)\end{aligned}$$

Number of days between the date the Initial Adjustment was due on August 4, 2000 and the date accrued, July 7, 2000, is 28 days.

$$\begin{aligned}\text{Total interest due the Buyer} &= (\$129,200.00) \times (11\%/366) \times 28 \text{ days} = (\$1,087.26) \\ \text{Credit due the Buyer against statement of account dated August 1} &= (\$130,287.26)\end{aligned}$$

Note: If the Production Month invoice was due on March 7, 2000 and the Initial Adjustment invoice (dated April 4, 2000) is due April 7, 2000 and the statutory interest changes from 11 percent in the first quarter to 12 percent in the second quarter, interest would be calculated as:

Days of interest first quarter = 24 days
Days of interest second quarter = 7 days

$$\begin{aligned}\text{Interest due first quarter} &= (\$129,200.00) \times (11\%/366) \times 24 \text{ days} = (\$931.93) \\ \text{Interest due second quarter} &= (-\$129,200.00 - \$931.93) \times (12\%/366) \times 7 \text{ days} = \underline{(\$298.66)} \\ \text{Total interest due the Buyer} &= (\$1,230.59) \\ \text{Credit due the Buyer against statement of account amount dated April 4} &= (\$130,430.59)\end{aligned}$$